



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 2090 (1943)

May 14, 1990

SUBJECT: Financing Alternative Agricultural Enterprises
With Farm Ownership (FO) and Operating (OL)
Loans

TO: State Directors, District Directors and County
Supervisors

ATTENTION: Farmer Programs Chiefs

PURPOSE/INTENDED OUTCOME:

The purpose of this FmHA Administrative Notice (AN) is to clarify our policy on financing alternative agricultural enterprises. The intended outcome is to ensure that alternative agricultural enterprises are considered by County Supervisors and County Committees in determining the eligibility of applicants, including socially disadvantaged applicants (SDAs), for FO and OL loans and credit sales of inventory property.

COMPARISON WITH PREVIOUS AN:

No previous AN has been written on this subject.

IMPLEMENTATION RESPONSIBILITIES:

It has been brought to our attention that some County Supervisors are reluctant to finance alternative agricultural enterprises for SDAs because our regulations are not clear on the requirements for making such loans. Applicants desiring to start an alternative agricultural enterprise often have little or no experience in farming these unique commodities, and no national or state unit prices exist for the products on which to develop feasible plans of operation.

EXPIRATION DATE: February 28, 1991

FILING INSTRUCTIONS:
Preceding FmHA
Instruction 1943-A



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Secretary of Agriculture, Washington, D.C. 20250

As with all FO and OL loans, any applicant who seeks FmHA financing for alternative agricultural enterprises must meet all loan eligibility criteria. One requirement is that the borrower have "sufficient applicable educational and/or on the job training or farming experience in managing and operating a farm or ranch (within 1 of the past 5 years) which indicates the managerial ability necessary to assure reasonable prospects of success in the proposed plan of operation." To assure that this requirement is met in the case of alternative agricultural enterprises, County Supervisors must exercise caution by requiring applicants who do not have adequate experience in such enterprises to start them on a small scale and diversify their farming operations to the fullest extent possible. This will minimize the borrower's financial risk and, hopefully, increase their farm income so that the borrower has a reasonable prospect of success.

In financing alternative agricultural enterprises, the proposed farming operations of eligible applicants must show a positive cash flow based on a feasibility study and sound farm plans. FmHA Instruction §1924.57(d) states that a borrower's projected income and expenses must be based on the borrower's proven record of production and financial management. When an existing farmer begins an alternative agricultural enterprise, however, the farmer will not have an available production history on which to base a farm plan. The applicant, therefore, should be considered a beginning farmer for the purposes of developing a feasible farm plan. FmHA Instruction §1924.57(d) states that for beginning farmers, the County Supervisor will consider ASCS records for the particular farm, Extension Service (ES) data, County averages, State averages, or other reliable sources of data to develop the projections.

The feasibility studies and farm plans of applicants desiring to operate an alternative agricultural enterprise, therefore, may and should be prepared by reliable sources, including 1862/1890 Land Grant Institutions. Such operations should be recommended on a sound basis by reliable sources in order to ensure sufficient income for the proposed farming operations. The feasibility study and farm plans should include a feasible marketing plan for the products to be produced on the farms. Where there are no established markets, contracting is recommended in order to ensure a market for the commodities and minimize the amount of financial risk.

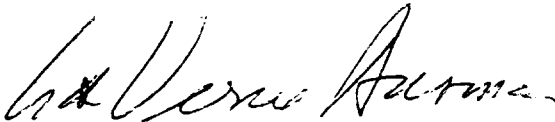
In several States, FmHA has financed small farmer training and technical assistance projects under Co-op Agreements with 1890 Land Grant Institutions and the Federation of Southern Co-operatives. These projects are designed to help

2090(1943)

SDAs in the selection of their farms and planning of enterprises, including alternative agricultural enterprises, based on a feasibility study of the farms. Also, under these projects, SDAs are provided training and technical assistance. However, County Supervisors are responsible for the overall supervision of all borrowers, including SDA borrowers.

State Directors will consult with officials of the 1862 or 1890 Land Grant Institution in their states to reach an agreement on what information will be needed to support an applicant's plan to operate an alternative agricultural enterprise. The State Directors then will issue to County Supervisors and District Directors the State Supplement setting forth this agreement.

If you have any questions on the above, you may contact Wilbert Campbell Jr., Director, Emergency Designation Staff, at FTS 382-1635 or commercial (202)382-1635.

A handwritten signature in cursive script, appearing to read "La Verne Ausman".

LA VERNE AUSMAN
Administrator